REPORT ON EXAMINATION

AS TO THE CONDITION OF THE

PRINCETON INSURANCE COMPANY

PRINCETON, NEW JERSEY 08540

AS OF DECEMBER 31, 2008

N.A.I.C. GROUP CODE 1210

N.A.I.C. COMPANY CODE 42226

TABLE OF CONTENTS

State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION
PO BOX 325
TRENTON, NJ 08625-0325

TEL (609) 292-5350
FAX (609) 292-6765

CHRIS CHRISTIE
*Governor*

KIM GUADAGNO
*Lt. Governor*

THOMAS B. CONSIDINE
*Commissioner*

May 10, 2010

In accordance with the authority vested in you by the Revised Statutes of New Jersey (N.J.S.A. 17:23-22) an examination has been made of assets, liabilities, methods of conducting business and other affairs of the

Princeton Insurance Company
746 Alexander Road
Princeton, NJ 08540
N.A.I.C. Group Code 1210
N.A.I.C. Company Code 42226

hereinafter referred to as the "Company".

## SCOPE OF EXAMINATION

The New Jersey Commissioner of Banking and Insurance called this Examination in compliance with the requirements of N.J.S.A. 17:23-22. The examination was a full scope comprehensive examination and was conducted at the Company's home office located at 746 Alexander Road, Princeton, New Jersey.

The examination was conducted using the risk-focused examination approach and addressed the three-year period from December 31, 2005, the date of the last Financial Condition Examination. During this three-year period under examination, the Company's net admitted assets decreased from $1,002,388,693 to $962,872,321. Liabilities decreased from $830,249,742 to $703,349,346 and its surplus to policyholders increased from $172,138,951 to $259,522,975.

The conduct of the examination was governed in accordance with the procedures of the National Association of Insurance Commissioners (NAIC) and followed regulatory procedures prescribed or permitted by the New Jersey Department of Banking and Insurance (NJDOBI). The scope of this examination was based upon the focus of certain specific key risk areas as determined by a risk assessment analysis through the use of control testing. Risks were assessed based upon its impact to the Company's financial condition, and its future results. An assessment of the Company's management, corporate governance and information systems was utilized to identify, control, assess and manage its business and financial reporting risks.

The overall objectives of this examination are indicated below:

- Analyze business risk activities focusing on examination procedures in those areas deemed to have greater risk to the Company's overall operations identifying significant operating issues and/or deviations from statutory accounting practices that affect solvency assessment.
- Identify significant deviations from New Jersey insurance laws, regulations and department directives.
- Compliance with the standards prescribed in the revised NAIC Financial Condition Examiners Handbook, NAIC accreditation/codification standards and procedures and with NJDOBI Departmental policies and procedures.
- Identify and report significant operational and internal control deficiencies and assess the Company's risk management processes.
- Assess the quality and reliability of corporate governance to identify, assess and manage the risk environment facing the insurer in order to identify current and prospective risk areas.
- Assess the risks that the Company's surplus is materially misstated.
- Provide a foundation for a profile of the Company's operations, risks and results to be utilized by regulatory authorities.

Substantive procedures were completed on certain risks based upon the adequacy of controls, risk mitigation strategies and materiality of the risks. Additional substantive procedures were performed as required by the NJDOBI.

In addition to the items hereinafter incorporated as part of the written report, the following items were reviewed and made part of the examination workpapers:

Advertising
Commitments and Contingencies
Treatment of Policyholders

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

**Continuity of Operations**

*Recommendation:* It is recommended, as presented in the previous examination report, that the Company formalize, test and distribute to designated employees a comprehensive business continuity plan and disaster recovery plan.

*Response and Review*: The Company's disaster recovery plan has been formulated, tested and distributed to key employees.

**Reinsurance Payable on Paid Losses and Loss Adjustment Expenses**

*Recommendation:* It is recommended, as presented in the previous examination report, that the Company settle its reinsurance balances payable due to the Hospital Trust for Workers' Compensation in a timely manner.

*Response and Review:* The Company indicated they will try to stay current (within 60 days as per the Reinsurance Contract) on the payment of reinsurance balances payable due to the Hospital Trust for Workers Compensation. However the Company did not settle this balance within 60 days of quarter end (as required in the reinsurance contract between the Hospital Trust and the Company) per a review of the outstanding reinsurance payable balance settlement. It is again recommended the Company settle this balance no more than 60 days after the end of each calendar quarter in accordance with the reinsurance contract settlement terms.

**Reinsurance**

*Recommendation:* It is recommended the Company correctly report the largest net aggregate amount insured in any one risk in the financial statement's general interrogatories.

*Response and Review:* The Company correctly reported $4,000,000 as the largest net aggregate amount insured in any one risk in accordance with the financial statement's general interrogatories. This amount would be a tail claim reaching the policy limit on occurrence plus coverage for those insureds who obtained this type of coverage after January 1, 2001.

**Bonds and Stocks**

*Recommendation:* It is recommended by this examination that the Company properly complete Schedule E-Part 3-Special Deposits in future annual statement filings.

*Response and Review:* The Company properly reported amounts in Schedule E-Part 3-Special Deposits.

**Aggregate Write Ins for Other Than Invested Assets**

*Recommendation*: It is recommended the Company write-off any NJPLIGA balances that have remained outstanding for more than two years in future financial statement filings.

*Response and Review:* The Company has written off these balances and complied with this recommendation.

## HISTORY AND KIND OF BUSINESS

The Company filed for incorporation on December 3, 1981 under and pursuant to the provisions of Chapter 17 of the Revised Statutes of the State of New Jersey. The Certificate of Incorporation was approved by the Deputy Attorney General of New Jersey on January 12, 1982 and filed with the Department of Insurance on January 16, 1982. The Company was officially incorporated on January 16, 1982.

The Company was originally formed to write non-assessable medical malpractice coverage for physicians, dentists and other health care providers in an effort to combat the medical malpractice crisis in New Jersey.

The Company's former sole shareholder, Nassau Holding Company, approved an amended and restated Certificate of Incorporation on December 22, 1995. This approved amendment was filed and approved by the NJDOBI on March 18, 1996. The amendment revised the "Third", "Fourth" and "Fifth" Articles of the Company's original Certificate of Incorporation.

At the Company's inception, all of the issued and outstanding shares of common capital stock were owned by the Nassau Holding Company, a non-insurer downstream holding company. Nassau Holding Company was a wholly-owned subsidiary of the Health Care Insurance Company, Princeton's former ultimate parent.

The Health Care Insurance Company, originally known as the Health Care Insurance Exchange, was organized as a reciprocal inter-insurance exchange concurrent with the incorporation of its attorney-in-fact, NJHA Underwriters, Inc., a not-for-profit corporation on November 3, 1975. The Certificate of Incorporation was duly filed and recorded by the Secretary of State and the Mercer County Clerk on November 6, 1975. The Health Care Insurance Company would offer medical malpractice insurance to New Jersey hospitals and other health care institutions.

On January 1, 1991, the Health Care Insurance Exchange reorganized from a reciprocal inter-insurance exchange to a stock insurance company. A recapitalization plan was developed and implemented during 1999 and 2000 in an effort to simplify the capital structure of the Health Care Insurance Company. The recapitalization plan involved the formation of the Princeton Insurance Company Merger Corporation (PICMC) and the Princeton Insurance Holdings, Inc., a new holding company. Princeton Insurance Holdings, Inc. was formed under the laws of the State of Delaware on December 10, 1999 and became the sole owner (shareholder) of PICMC.

PICMC filed a Certificate of Incorporation with the New Jersey Commissioner of Banking and Insurance on December 29, 1999. The recapitalization plan was authorized by the Commissioner on January 21, 2000 and a Certificate of Authority was issued to PICMC to write the kinds of insurance authorized by paragraph "e" of N.J.S.A. 17:17-1. Ultimately, PICMC merged into the Health Care Insurance Company under an Agreement and Plan of Merger, and Princeton Insurance Holdings, Inc. became the ultimate parent.

On February 15, 2000, in accordance with the provisions of N.J.S.A. 17:27A-2, the Medical Liability Mutual Insurance Company ("MLMIC") filed an application with the New Jersey Department of Banking and Insurance to acquire control of the Health Care and Princeton Insurance Companies. On September 12, 2000 the then New Jersey Commissioner of Banking and Insurance, Karen L. Suter, signed an Administrative Decision and Order approving the acquisition of Health Care and Princeton Insurance Companies by MLMIC. The acquisition was completed with the merger of the MLMIC Holding Company (a corporation established for the purposes of completing this merger transaction) and Princeton Holdings, Inc. Under the merger, Princeton Holdings, Inc. emerged as the surviving corporation, but was renamed MLMIC Holding Company, Inc. In accordance with the merger agreement, all class A common stock of Princeton Holdings, Inc. was canceled, retired and terminated.

The Board of Directors and sole shareholders of the Princeton and Health Care Insurance Companies approved an Agreement of Merger (Merger) on November 13, 2001 and on December 31, 2001 the Health Care Insurance Company (HCIC) merged with and into Princeton with Princeton continuing as the surviving corporation under the name Princeton Insurance Company and governed by the laws of New Jersey. This Agreement of Merger was submitted to the NJDOBI for approval, and a certificate of approval was issued by Donald Bryan, then Acting Commissioner of Banking and Insurance, on November 8, 2001 and the merger was effectuated on December 31, 2001.

At the completion of the merger, the cancellation and conversion of securities shall be as follows: "The shares of common stock in Princeton issued to Nassau Holding Company, the shares of common stock in Nassau Holding Company issued to HCIC and the shares of common stock in HCIC issued to MLMIC Holding Company, Inc. shall all be cancelled. Each share of common stock of HCIC owned by MLMIC Holding Company, Inc. immediately prior to the merger shall be converted automatically upon the merger into four and two-tenths (4.2) fully paid and non-assessable shares of common stock in Princeton, which shares shall constitute all the issued and outstanding shares of the common stock of Princeton immediately following the merger, and thereafter."

As a result of the merger, the Company filed a Second Amended and Restated Certificate of Incorporation on November 13, 2001 with the NJDOBI. This amended Certificate of Incorporation was approved by the

Attorney General of New Jersey on December 20, 2001 and filed with the NJDOBI on December 26, 2001. Under the revised Certificate of Incorporation, the Company's principal office is located at 746 Alexander Road, P.O. Box 5322, Princeton, New Jersey and the agent upon whom process may be served is Donald E. Smith. The Company has $4,200,000 of common capital stock, consisting of 42,000 shares at a par value of $100 per share.

On March 28, 2002 the NJDOBI approved and the Company received a cash infusion of $40,000,000 from its ultimate parent, MLMIC in the form of a surplus note pursuant to a Form D filing in accordance with N.J.S.A. 17:27A-4a(2). The note will mature on March 29, 2012 and will earn 6% interest annually. All interest payments are subject to approval by the NJDOBI. Interest payments of $13,827,945 were approved and accrued in December 13, 2007 and paid in January 2008.

The Company made a decision in calendar year 2002 to exit its small risk workers' compensation program that was administered by one of its wholly-owned subsidiaries, The Princeton Agency, Inc. On December 30, 2002 Princeton Insurance Company entered into an agreement to sell The Princeton Agency and the renewal rights for its Small Risk Workers' Compensation business to AmTrust Financial Services. Effective January 1, 2003, for a period of five years, Princeton received 2 percent of the gross premium relating to new and renewal business of AmTrust.

On March 4, 2003 the Princeton Insurance Company filed a request with the NJDOBI to withdraw from writing Business Owner Protection insurance in New Jersey, citing a reduction in its business capacity due to the overall deterioration in the Company's financial condition, among other reasons. On May 20, 2003, the NJDOBI issued Consent Order No. C03-105 approving this withdrawal.

On March 3, 2004, pursuant to N.J.S.A 17:27A-3b(3)(f), the Company received approval from the NJDOBI to proceed after April 1, 2003 with an amendment to the inter-company reinsurance agreement between Princeton Insurance and Medical Liability Mutual Insurance Company originally approved by the Department on January 3, 2003. On or about December 8, 2004 Princeton Insurance Company submitted a Form D filing stating the Company’s intention to enter into a reinsurance trust agreement between the parties. The NJDOBI granted permission for the Company to proceed with the transaction in a letter dated January 28, 2005. This agreement is currently still in effect and is detailed under the report section “Reinsurance and Retention”.

The Company submitted an amendment to the Second Amended Certificate of Incorporation to the NJDOBI on February 24, 2006. Under the revised Certificate of Incorporation, the name of the agent upon whom process may be served was changed to William J. McDonough. The amendment was approved by the NJDOBI Deputy Attorney General on March 15, 2006 and filed with the NJDOBI on April 21, 2006.

A Form D filing dated November 30, 2007 was filed with the NJDOBI requesting an amendment to the reinsurance trust agreement with the Company’s Parent, MLMIC and Citibank. Under the Form D filing the 2000 Quota Share Reinsurance Agreement between MLMIC and the Company was added to the trust agreement to ensure full collateralization of this reinsurance contract. On December 12, 2007 the Company received approval from the NJDOBI to proceed with an amendment to the 2005 trust agreement between the Company, Medical Liability Mutual Insurance Company and Citibank.

Per the Company's amended Certificate of Authority dated August 25, 1997, the Princeton Insurance Company is authorized to engage in the kinds of insurance as specified in paragraphs "a", "b", "e", "f", "g", "j", "k", "l", "o-1" and "o-3" of N.J.S.A. 17:17-1 et seq.

## TERRITORY AND PLAN OF OPERATION

The Company is predominately a medical malpractice writer with over 95% of the 2008 gross premium writings within that line of business as indicated below:

| | |
|---|---|
| Medical Malpractice-Occurrence | $112,147,577 |
| Medical Malpractice-Claims Made | 63,436,830 |
| Other Liability-Occurrence | 6,086,533 |
| All Other | 2,044,405 |
| Total | $183,715,345 |

The Company offers medical malpractice insurance to both hospitals and individual practitioners. The Company mainly offers two type of policies; claims made and occurrence plus. The claims made policy covers all claims occurring and reported within the policy period. Any new insured who had previous claims made coverage from another carrier is eligible to purchase prior acts coverage contingent upon the underwriters approval. This coverage would provide protection for unreported medical incidents that occurred during prior claims made coverage periods. The occurrence plus policy form provides for claims-made coverage while the policy is inforce and a pre-funded automatic extended reporting endorsement which is applied to the insured's final policy when the insured non-renews of cancels for any reason.

Currently the Company is licensed to transact business in 16 states and the District of Columbia.

As previously stated, due to the Company's exit of its small risk workers' compensation program, administration servicing on these claims are performed by Cologne Re. under its reinsurance agreements, some of which is outsourced to third parties (see claims servicing agreements as indicated below).

On August 21, 2003 the Company ceased writing new business (allowing for exceptions those physicians who were joining an already existing Princeton group) based upon corrective action of its revised Company Action Level RBC plan dated June 12, 2003. The Company resumed writing new business on December 1, 2004 (with the exception of occurrence plus policies) in accordance with improvements derived from the implementation of the Company Action Level RBC plan. Among those actions were the following:

- Withdrawal from all non-New Jersey medical professional liability business
- Withdrawal from small workers compensation programs
- Transfer excess risk on remaining professional liability business to outside reinsurers
- Collaterized reinsurance recoverables from its Parent, MLMIC

Effective January 1, 2007 the Company resumed writing new occurrence plus policies.

The Company utilizes independent agents in marketing its business. The Company utilizes an agency contract for individual risks and a broker's contract for institutional risks.

The Company maintains various service agreements with vendors who are not affiliated with the Company. Among these agreements are the following:

- A Claims Servicing Agreement with Sedgwick Claims Management Services, Inc. (successor to the Agreement between Integrated Claim Strategies, Inc. (ICS) and the Company)-Under this Third

Party Administration Agreement, Segwick Claims Management Services, Inc. agrees to perform all facets of workers compensation claims servicing and handling. The Agreement shall cover all workers' compensation claims as outlined in Addendum A of the Agreement which were reported during the 24 month period commencing March 1, 2002 and ending February 28, 2004 and shall automatically renew unless it is terminated by either party with 90 days written notice.

- A Claims Servicing Agreement with Crawford & Company (C&C)-Under the Agreement C&C agrees to provide certain services with respect to the investigation and payment of workers compensation insurance claims. Under the terms of the Agreement C&C agrees to provide all services as outlined within the Agreement to the insurer in connection with the insurer's claims occurring under policies in the States of Connecticut, Delaware, Georgia, Illinois, Indiana, Maryland, North Carolina and Virginia during the period commencing May 12, 1999 and ending May 11, 2000.
- A risk management analytical system with the Risk Management Foundation of the Harvard Medical Institutions, Inc. (RMFS)-Under the Agreement RMFS will provide the Company data and reports from its data warehouse which will be utilized in the implementation of risk management strategies.
- An investment management agreement with Invesco, Inc.-Under the Agreement Invesco is to manage the investment and reinvestment of the Company's invested assets held by Mellon Trust, the Company's most significant custodian. Invesco is required to adhere to strict investment guidelines, which are attached to the agreement and amended periodically whenever the Company amends its investment policy. The Company retains the sole authority to modify the investment guidelines.
- A Securities Lending Agreement with Mellon Bank, NA.-Under the Agreement Mellon Bank, NA administers a Securities Lending Program in accordance with the provisions of the Lending Agreement and with respect to the lending securities held by Princeton Insurance Company. Mellon Bank, NA acting as the lending agent; shall have the responsibility of negotiating the terms of each loan, and for collecting all required collateral on behalf of the Company.

Princeton Insurance Company is headquartered in Princeton, New Jersey and does not maintain any other offices.

## REINSURANCE AND RETENTION

The Company limits its exposure on certain losses through the utilization of reinsurance. The following is a summary of all major reinsurance agreements in effect, the coverage provided and the maximum limits of reinsurance on those contracts:

| Business Covered, Type of Contract and Period Covered | Reinsurers Limit | Company Retention |
|---|---|---|
| | | |
| *Hospital/Physician Medical Malpractice, Commercial Auto Liability and General Liability* | | |
| | | |
| First Excess of Loss-April 1, 2008-April 1, 2009 | $5,000,000 XS $1,000,000; | First $1,000,000 and 20% up to $5,000,000 reinsurer limit |
| | | |
| Second Excess of Loss-April 1, 2008-April 1, 2009 | $10,000,000 XS $6,000,000 | None |
| | | |
| First Excess of Loss-April 1, 2007-April 1, 2008 | $5,000,000 XS $1,000,000 | First $1,000,000 |
| | | |
| Second Excess of Loss-April 1, 2007–April 1, 2008 | $10,000,000 XS $6,000,000 | None |
| | | |
| First Excess of Loss-April 1, 2006 –April 1, 2007 | $5,000,000 XS $1,000,000; Aggregate Limit of 300% of ceded excess limits gross of net written premium | First $1,000,000 |
| | | |
| Second Excess of Loss-April 1, 2006 – April 1, 2007 | $10,000,000 XS $6,000,000 | 5% of $10,000,000 reinsured is retained |
| | | |
| First Excess of Loss-April 1, 2005 –April 1, 2006 | $5,000,000 XS $1,000,000; Aggregate Limit of 250% of ceded excess limits gross of net written premium | First $1,000,000 and 5% up to $5,000,000 reinsurer limit |
| | | |
| Second Excess of Loss-April 1, 2005 – April 1, 2006 | $10,000,000 XS $6,000,000 | None |
| | | |
| Captive Quota Share | 100% of First $500,000 | 100% of XS $500,000 |
| | | |
| *Physicians Office Property including casualty business (coverage has remained the same throughout the examination period)* | | |
| | | |
| First Excess- All contract years from April 1, 2005-April 1, 2009 | $250,000 XS $250,000; $750,000 Aggregate on Terrorist Activity | First $250,000 |
| | | |
| Second Excess-All contract years from April 1, 2005 –April 1, 2009 | $500,000 XS $500,000; $1,000,000 Aggregate on Terrorist Activity | None |
| | | |

| | | |
|---|---|---|
| <u>Business Covered, Type of Contract and Period Covered</u> | <u>Reinsurers Limit</u> | <u>Company Retention</u> |
| | | |
| Third Excess-All contract years from April 1, 2006-April 1, 2009 | $1,000,000 XS $1,000,000; $2,000,000 Aggregate on Terrorist Activity | None |
| | | |
| Equipment Breakdown | $25,000,000 | None |
| | | |
| <u>*Physicians Occurrence Plus Tail:*</u> | | |
| | | |
| 1987-1997 Cancel Year-Activated-Novation and Aggregate Excess Assumption | $6,000,000 per occurrence; $172,500,000 XS $50,000,000 in aggregate | Full retention until $50,000,000 in Aggregate |
| | | |
| 1998 Cancel Years-Activated Assumption | $6,000,000 per occurrence | $31.745 million in Aggregate |
| | | |
| In-force as of December 31, 1998 and still in force as of January 1, 2001 quota share contract | $6,000,000 per occurrence up to $180,000,000 in Aggregate | In Excess of $180,000,000 in Aggregate |
| | | |
| <u>*Workers Compensation*</u> | | |
| | | |
| Retained business net of reinsurance-Renewed and In-Force and Renewal at 01/01/03 | 100% quota share up to $1,000,000; Up to 110% of earned premium net of ceding commission plus ULAE in Aggregate | In excess of 110% of earned premium net of ceding commission plus ULAE in Aggregate |
| | | |
| Retained old business net of reinsurance-As of 12/31/02 and prior | 100% quota share up to $102,500,000 plus ULAE in Aggregate | In excess of $102,500,000 plus ULAE in Aggregate |
| | | |
| | | |

Concurrent with the Company’s decision to stop writing workers compensation insurance, effective January 1, 2003 the Company entered into a loss portfolio transfer contract with Cologne Reinsurance Company Ltd (Cologne Re) to transfer all of its small business workers compensation unpaid claim liabilities to Cologne Re for all losses occurring prior to December 31, 2002. Under the Agreement Princeton paid a reinsurance premium of $96,000,000 to Cologne Re which represents the Company’s net reserve liabilities for these policies as of December 31, 2002. This contract was deemed to not include risk transfer and therefore is accounted for as deposit accounting in accordance with SAAP 62.35. Based upon subsequent claim payment recoveries the Company had a remaining deposit balance of $8,836,029 as of December 31, 2008.

The Company participates and assumes reinsurance from mandatory and voluntary pools and associations including the New Jersey Commercial Auto Insurance Procedure (NJCAIP), National Council of Compensation Insurance (NCCI) and the Health Care Insurance Facility (HCIF) Excess Liability Pool. In addition the Company also assumes reinsurance losses from the Hospital Trust for Workers Compensation. The Hospital Trust for Workers Compensation (the Trust) was created in cooperation with the Company to self-insure participating workers compensation insurance and employer's liability insurance under the authority of N.J.A.C. 11:15. The contract to reinsure the Hospital Trust for Workers Compensation was not renewed effective January 1, 2001 and as January 1, 2002 there is no business in force on this contract. However the Company is still assuming workers compensation and employer's liability insurance losses to the extent indicated below:

Per Accident: Amount in excess of the Trust's retention of $100,000 on loss indemnity payments. Loss adjustment expenses shall be shared in the proportion that the loss incurred by the reinsurer bears to the total amount of loss incurred by the Trust.

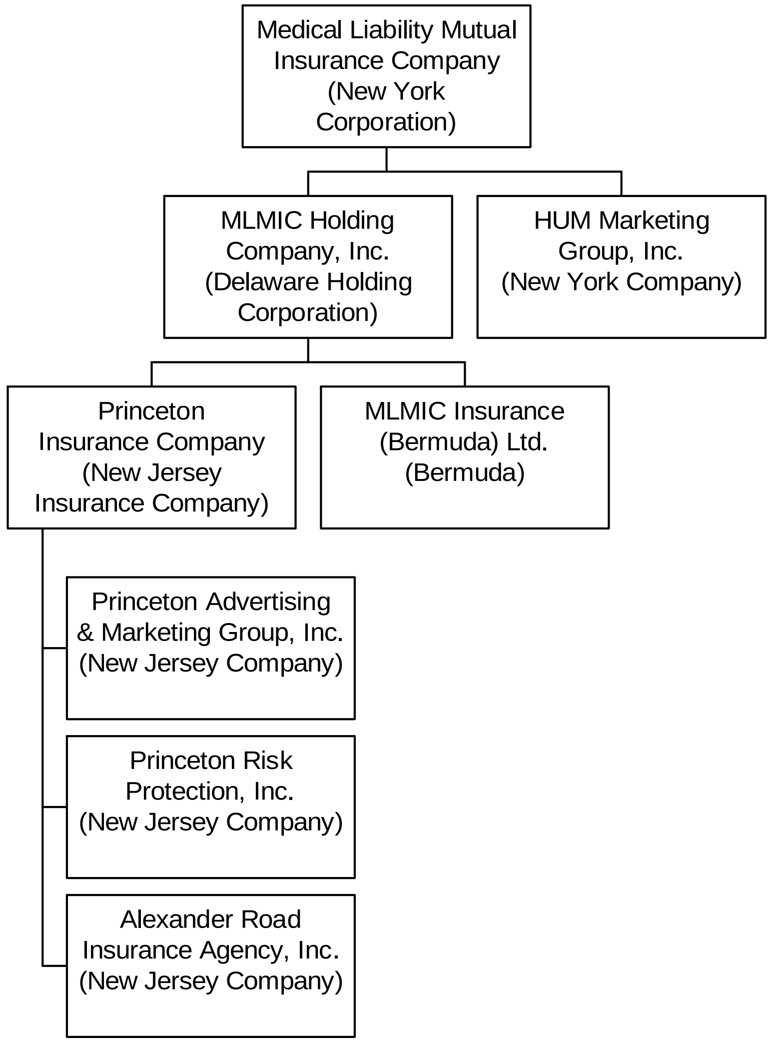
In Aggregate: The Company shall pay to the Trust the amount of losses and loss adjustment expense payments not reimbursed by the Company which exceed the participating hospital's percentage retention level (40% or 80%) of its Trust contributions for the applicable agreement year and the amount of the Trust's investment income accrued on the applicable participating hospitals' trust contributions.

As indicated above the Company reinsures its occurrence plus tail policies for cancel years 1987-1998 and for any in-force insurance policies as of December 31, 1998 which were still in-force as of January 1, 2001. The Company elected to retain any new occurrence plus tail policies written as of January 1, 1999 and any inforce policies as of December 1, 1998 and canceled in 1999 and 2000. The Company has also retained additional exposure on these type of policies based upon a subsequent commutation of its quota share agreement with MLMIC which is discussed under the report caption "Subsequent Events".

Any reinsurance contracts entered into subsequent to the last examination date (December 31, 2005) were reviewed by Boris Privman, Managing Actuary for the NJDOBI to ensure there was adequate risk transfer on those contracts. These reinsurance agreements were also reviewed to ensure all contracts had acceptable clauses and conditions. Any previously reviewed agreements with subsequent amendments were also reviewed to ensure proper risk transfer and acceptable clauses and conditions.

## HOLDING COMPANY SYSTEM

The Company is a member of a holding company system as defined within N.J.S.A. 17:27A-1. MLMIC is the ultimate parent of the Companies within the holding company system as illustrated below:




The Company is a participant in a consolidated federal income tax return with its Parent, MLMIC, and all of its subsidiaries including Princeton Advertising & Marketing Group, Princeton Risk Protection and Alexander Road Insurance Agency, Inc. This tax arrangement is based upon an amended and restated written tax allocation agreement originally entered into on January 15, 2002. Under this agreement, income tax expenses are computed on a separate company basis as if each affiliate was filing a separate tax return. Intercompany balances are paid to MLMIC and settled on a quarterly basis. Any tax refund shall be paid by MLMIC to any subsidiary within 30 days of receipt of such refund.

On June 26, 2002 the Company entered into a service and expense allocation agreement along with its subsidiaries and its affiliates (collectively referred to as the "Group") which allows the members of the Group to provide and make available to each other the services of their personnel, the apportionment of space, and the use of equipment, as long as such arrangement does not interfere with or impede their normal business operations. The costs and expenses of providing such facilities, equipment and services shall be determined and allocated on a fair and equitable basis and in conformity with customary insurance practices consistently applied and shall not exceed the cost incurred in providing the actual services. Any out of pocket expenses which are directly calculable, including but not limited to, electricity, telephone, postage, furniture, fixtures, leasehold improvements, etc. shall be directly allocated to the responsible party. All billings between the parties shall be settled within sixty (60) days after the last day of each calendar quarter for the net amount of all such quarterly allocated costs and expenses.

The Company entered into a Trust Agreement effective February 1, 2005 with Medical Liability Mutual Insurance Company (MLMIC) and Citibank, N.A. Under the Agreement MLMIC puts in trust with Citibank, NA those monies payable to the Company a result of losses occurring on the July 1, 2002 quota share agreement with MLMIC. Trust Assets are for the sole use and benefit of the Company.

On March 28, 2002 the Company issued a surplus note to MLMIC in the amount of $40,000,000. The note will mature on March 29, 2012 and will earn 6% interest to be paid semi-annually. All interest and principal payments are subject to the approval of the NJDOBI. Accrued interest payments of $13,827,945 were approved by the NJDOBI and paid in 2008.

## CORPORATE RECORDS

Minutes of meetings held by the Board of Directors revealed adequate approval of the Company's transactions and events including the review and approval of the prior statutory financial examination report.

The Company's adherence to its Certificate of Incorporation and Bylaws was validated without exception. It should be noted that the Company's Certificate of Incorporation lists William J. McDonough as the registered agent upon whom process may be served. Since Mr. McDonough is no longer with the Company, it is recommended the Company revise its registered agent and amend Article II of its Certificate of Incorporation.

The Company maintains both a formal audit committee and a finance committee consisting of Board Members. Both of the Committees revealed adequate disclosure of relevant events and transactions to the Board of Directors.

## MANAGEMENT AND CONTROL

The business, property and affairs of the Princeton Insurance Company shall be conducted and managed under the guidance of the Company's Board of Directors.

In accordance with the Company's corporate bylaws each Director is elected by the Shareholders at its annual meeting. The By-laws also indicate that the Board of Directors will have not less than nine (9) or more than twenty-one (21) members. A listing of the nine Directors serving at December 31, 2008 with their principal occupation and current home and or business address, is presented below:

| Name | Principal Occupation | Address |
|---|---|---|
| Kenneth Aitchison | Retiree: Healthcare Industry | 74 Kahdena Rd<br>Morristown, NJ<br>07960 |
| Raymond H. Bateman | Public Affairs Consultant | 102 Lamington Road<br>Somerville, NJ 08876 |

| | | |
|---|---|---|
| John W. Lombardo, MD | Ophthalmologist | 7801 4th Ave.<br>Brooklyn, NY 11209 |
| Stanley L. Grossman, MD | Retired Physician | 82 Susan Dr.<br>Newburgh, NY 12550 |
| Harold Herzog | Retiree: Finance Industry | 221 Mill Rd.<br>New Canaan, CT<br>06840 |
| Keith McLaughlin | Retiree: Healthcare Industry | 53 Sydney Ct.<br>Atlantic Highlands,<br>NJ 07716 |
| Robert A. Menotti, MD | President of Medical<br>Liability Mutual Insurance<br>Company | 4045 Bristol Rd.<br>Clinton, NY 13323 |
| Salvatore Volpe, MD | Physician | 17 White Hall Street<br>Staten Island, New<br>York, N.Y. 10306 |
| Richard F. Schaub | Semi Retired:<br>Interim President of Raritan<br>Valley Community College | 128 Bermuda Dr.<br>Neshanic Station, NJ<br>08853 |

In accordance with N.J.S.A. 17:27A-4(d)(3) the Company is required to have a Board composition of no less than 1/3 outside directors. All of the nine board members are considered "outside" directors with the exception of Robert Menotti who is the President of MLMIC.

In accordance with N.J.S.A. 17:27A-4d(4), any committee selecting and reviewing the work performed by the Company's CPA firm, nominating candidates for director or evaluating the performance and determining the compensation of Company officers shall be comprised solely of outside directors. These functions are under the direction of the audit and compensation committee. In accordance with the Corporate By-laws the audit and compensation committee or any other committee designated is appointed by the Chairman of the Board with confirmation of a Board majority. Members serving the audit and compensation committee are as follows:

Kenneth Aitchison
John Lombardo, M.D.
Keith McLaughlin

In accordance with the Corporate By-laws, the Audit and Compensation Committee does maintain a Finance Committee as well. The Finance Committee meets at least quarterly and is involved in the Company's investment of assets. The Company's investment portfolio is managed by Invesco, Inc. which reports results directly to the Finance Committee. Members serving the finance committee are as follows:

Harold K. Hertzog
Robert A. Menotti, M.D.

Richard F. Schaub

At all meetings of the Board including committee meetings a quorum of members must be met for any transaction of business. A majority of members of the Board or committee shall constitute a quorum.

In accordance with the Corporate Bylaws, Officers of the Company shall perform the duties as prescribed within the Bylaws or as determined by the Board of Directors. Officers of the Company shall include a Chairman, a President, a Secretary, a Treasurer and other Officers as may be determined by the Board of Directors. More than one person may hold an office of the same title, but the person serving as president may not serve simultaneously as secretary. Officers serving the Company as of December 31, 2008 are as follows:

| | |
|---|---|
| President and CEO | Charles William Lefevre |
| Secretary | Stanley Lawrence Grossman, MD |
| Treasurer and CFO | Andrea C. Kanefsky |
| Assistant Secretary | Kieran E. Pillion |
| Corporate Chairman | Robert A. Menotti, MD |

## POLICY ON CONFLICT OF INTEREST

The Company has an established policy statement in place regarding the reporting of conflicts or potential conflicts of interest. Each director and officer of the Princeton Insurance Company is required on an annual basis to review the Company's conflict of interest policy statement and complete and sign the attached conflict of interest questionnaire. The completed questionnaires are returned to the Company's Vice President and General Counsel, who reviews these questionnaires and reports any conflicts or potential conflict(s) of interest directly to Princeton's Board of Directors.

A review of the completed questionnaires filed during the examination period indicated no material disclosures of conflicts of interest or potential conflicts of interest.

## POLICY FORMS AND UNDERWRITING PRACTICES

The Company primarily provides medical malpractice insurance to qualifying New Jersey health care providers and hospitals. Policies offered include a claims-made policy, an occurrence policy and an occurrence plus policy which includes pre-paid tail coverage. The Company also offers general liability insurance on its hospital and Professional Office Package (POP) policies.

Claims made policies are available to qualifying individual healthcare providers with coverages up to $2,000,000 per incident and $4,000,000 on an annual aggregate basis. Increased limits may also be provided through the Company’s excess liability program. Claims made hospital coverage is available with primary coverage of $1,000,000 per incident and $3,000,000 on an annual aggregate basis. Increased hospital limits may also be provided up to a maximum of $15,000,000 through the Company’s umbrella and excess liability programs. When a claims made policy is terminated for any reason, the insured is offered an Extended Reporting Period (Tail) endorsement to insure coverage for claims made policies after the termination date. An Extended Reported Period Endorsement is provided at no cost if a claims made policy is cancelled due to death, disability or retirement for those insureds having 5 years of claims made coverage and who are at least 55 years old. Any new claims made insured who previously maintained claims made coverage with another insurance provider can also obtain prior acts coverage to cover losses on prior occurrences.

Occurrence policies are also available with coverage available up to $2,000,000 per incident and $4,000,000 on an annual aggregate basis. Currently occurrence policies are primarily available to dentists and allied health workers.

Occurrence plus policies are available to qualifying individual healthcare providers with coverages up to $2,000,000 per incident and $4,000,000 on an annual aggregate basis and in some cases additional increased limits are available through the Company's excess liability program. The occurrence plus policy form provides for claims-made coverage while the policy is inforce and a pre-funded automatic extended reporting endorsement which is applied to the insured's final policy when the insured non-renews or cancels for any reason.

The Company maintains underwriting guidelines which identify the risks acceptable to the Company. The Company rates insureds in accordance with qualifying standards as outlined in the underwriting manual.

Policy form and rate changes were inspected and verified for the period under examination with appropriate approvals obtained from the NJDOBI.

## FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Princeton Insurance Company maintains insurance coverages intended to protect its assets from losses emerging from the various risks of conducting business. A summarization of the insurance coverages in effect at December 31, 2008 follows:

| Type of Coverage | Limit Amounts |
|---|---|
| Commercial Package Policy: | |
| Commercial General Liability | $2,000,000 (Gen'l, Products/Completed Operations Aggregate Limit) |
| | $1,000,000 (Each Occurrence Limit) |
| | $1,000,000 (Personal Injury and Advertising Injury) |
| | $25,000 (Medical Expenses) |
| | $1,000,000 (Damage to Premises Rented to you limit) |
| | $2,000,000 (Products Completed Ops) |
| | $2,000,000 (General Aggregate) |
| Commercial Property | $50,000 (Debris Removal) |
| | $50,000 (Increase in Cost of Construction) |
| | $25,000 (Fine Arts) |
| Building & Personal Property | $1,000,000 (Newly Acquired Bldg) |
| | $500,000 (Pers'l Property in Newly Acquired Bldg) |
| | $100,000 (Restoration of Valuable Papers)Financial Institution |
| Workers' Compensation | $1,000,000 (Bodily Injury Limit by Accident) |
| | $1,000,000 (Bodily Injury Limit by Disease) |

| Type of Coverage | Limit Amounts |
|---|---|
| Crime Fidelity: | $10,000,000 (Aggregate Limit of Liability) |
| Fidelity | $5,000,000 (Deductible Amount $50,000) |
| On Premises | $250,000 (Deductible Amount $50,000) |
| Forgery or Alteration | $250,000 (Deductible Amount $50,000) |
| Extended Forgery | $250,000 (Deductible Amount $50,000) |
| Counterfeit Money | $250,000 (Deductible Amount $50,000) |
| Computer System | $250,000 (Deductible Amount $50,000) |
| Fiduciary Liability | $2,000,000 (Deductible Amount $10,000) |
| Commercial Umbrella | $5,000,000 (Each Occurrence Limit for Policy) |
| | $1,000,000 (General Liability ) |
| | $1,000,000 (Automobile Liability) |
| | $1,000,000 (Employers Liability) |
| EDP | $3,000,000 (Policy Limits) |
| | $25,000 (Theft) |
| | $250,000 (Debris Removal) |
| | $75,000 (Wind) |
| | $50,000 (Flood) |

At December 31, 2008 the Company was covered under a Financial Institution Bond with coverage of $5,000,000. This coverage was determined to satisfy the minimum amount of Fidelity Bond Coverage as suggested by the NAIC formula and exposure index.

## ACCOUNTS AND RECORDS

The Company's accounting books and records are maintained at their statutory home and administrative office located at 746 Alexander Road, Princeton, New Jersey 08540. Financial information needed in conjunction with the controls established for certain risks and the verification of assets and the determination of liabilities was made available in detail and summary form. The Company's general ledger was reviewed, tested and reconciled with the 2008 annual statement.

Princeton Insurance Company's accounting and statistical information is produced by multiple electronic data processing systems. The Company's general ledger accounts, trial balance, cash receipts and disbursements are processed on an automated system called PLATINUM, which interfaces with the systems used for investments, losses, reinsurance, premiums and agent communications. Financial statements are prepared in-house under the direction and management of the Chief Financial Officer.

Initial input data for premiums and losses is entered into the automated system ECHOS (Exposure Center Home Office System). ECHOS is an internally developed database system which interfaces with the Company's residence database system, the A/S 400 (WINS-Wheatley Insurance System). The WINS system is primarily used for running reports and maintaining all underwriting and claims information. The information contained within the A/S 400 system is accessible through Microsoft ACCESS, which resides on each employee's desktop computer. Once the information is in ACCESS it can be uploaded and interfaced with the Company's general ledger system (PLATINUM). System reports can be generated from all aforementioned systems as needed.

Only designated individuals within the Company are authorized to access and work within the WINS database. Database software, including Microsoft ACCESS, is available on the Company's LAN (Local Area Network) and this is where data calculation occurs such as accounting for reinsurance (ceded and assumed), commission calculations, unearned premiums, etc.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

PRINCETON INSURANCE COMPANY
EXHIBIT A-BALANCE SHEET FOR DECEMBER 31, 2008

| Assets | Examination At 12/31/08 | Company at 12/31/08 | Examination Change | Note Number |
|---|---|---|---|---|
| Bonds | $777,591,779 | $777,591,779 | $0 | 1 |
| Common Stocks | 68,975,779 | 68,975,779 | 0 | 1 |
| Real Estate - Properties Occupied by the Company | 6,179,816 | 6,179,816 | 0 | |
| Cash and Short-Term Investments | 56,745,624 | 56,745,624 | 0 | 1 |
| Receivable for Securities | 32,660 | 32,660 | 0 | |
| Investment Income Due and Accrued | 6,620,308 | 6,620,308 | 0 | |
| Uncollected Premiums and Agents' Balances In Course of Collection | 507,801 | 507,801 | 0 | 2 |
| Deferred Premiums including Installments booked But Deferred and Not Due | 14,240,830 | 14,240,830 | 0 | 2 |
| Amounts Recoverable from Reinsurers | 2,201,031 | 2,201,031 | 0 | |
| Funds Held by or Deposited with Reinsured Companies | 39,989 | 39,989 | 0 | |
| Net Deferred Tax Asset | 17,405,100 | 17,405,100 | 0 | |
| Electronic Data Processing Equipment and Software | 723,441 | 723,441 | 0 | |
| Aggregate Write-ins for Other Than Invested Assets | 11,608,163 | 11,608,163 | 0 | |
| Total Admitted Assets | $962,872,321 | $962,872,321 | $0 | |
| | | | | |
| Liabilities | | | | |
| Losses and Loss Adjustment Expenses | $509,464,171 | $509,464,171 | $0 | 3 |
| Reinsurance Payable on Paid Loss and LAE | 439,612 | 439,612 | 0 | |
| Commissions Payable, Contingent Commissions and Other Similar Charges | 1,730,241 | 1,730,241 | 0 | |
| Other Expenses | 9,817,485 | 9,817,485 | 0 | |
| Taxes, Licenses and Fees | 495,868 | 495,868 | 0 | |
| Current Federal and Foreign Income Taxes | 549,439 | 549,439 | 0 | |
| Unearned Premiums | 70,300,926 | 70,300,926 | 0 | |
| Advance Premiums | 12,766,051 | 12,766,051 | 0 | |
| Ceded Reinsurance Premiums Payable | 11,175,032 | 11,175,032 | 0 | |
| Funds Held by Company Under Reinsurance Treaties | 83,355,070 | 83,355,070 | 0 | |
| Amounts Withheld or Retained by Company for Account of Others | 1,698,270 | 1,698,270 | 0 | |
| Provision for Reinsurance | 304,386 | 304,386 | 0 | |
| Payable to Parent, Subsidiaries and Affiliates | 221,862 | 221,862 | 0 | |
| Payable for Securities | 607,526 | 607,526 | 0 | |
| Aggregate Write-ins for Liabilities | 423,407 | 423,407 | 0 | |
| Total Liabilities | $703,349,346 | $703,349,346 | $0 | |
| | | | | |
| Surplus and Other Funds | | | | |
| Common Capital Stock | $4,200,000 | $4,200,000 | $0 | |
| Surplus Notes | 40,000,000 | 40,000,000 | 0 | |
| Gross Paid in and Contributed Surplus | 6,250,708 | 6,250,708 | 0 | |
| Unassigned Funds (Surplus) | 209,072,267 | 209,072,267 | 0 | |
| Surplus as Regards Policyholders | $259,522,975 | $259,522,975 | $0 | |
| Total Liabilities, Surplus and Other Funds | $962,872,321 | $962,872,321 | $0 | |

PRINCETON INSURANCE COMPANY

EXHIBIT B-SUMMARY OF OPERATIONS FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2008

| UNDERWRITING INCOME | 2008 | 2007 | 2006 |
|---|---|---|---|
| Premiums Earned | $173,677,926 | $192,277,519 | $170,291,248 |
| Deductions: | | | |
| Losses Incurred | $95,418,128 | $84,567,773 | $101,931,573 |
| Loss Adjustment Expenses Incurred | 39,735,135 | 34,249,507 | 28,171,359 |
| Other Underwriting Expenses Incurred | 30,424,518 | 32,062,551 | 29,959,392 |
| Total Underwriting Deductions | $165,577,781 | $150,879,831 | $160,062,324 |
| Net Underwriting Gain or (Loss) | $8,100,145 | $41,397,688 | $10,228,924 |
| INVESTMENT INCOME | | | |
| Net Investment Income Earned | $36,141,225 | $38,269,415 | $33,990,643 |
| Net Realized Capital Gains or (-) Losses | (24,259,323) | 7,587,823 | 2,351,368 |
| Net Investment Gain | $11,881,902 | $45,857,238 | $36,342,011 |
| OTHER INCOME | | | |
| Net Gain or Loss (-) From Agents' Balances Charged Off | $2,632,486 | ($57,828) | ($3,262,829) |
| Finance or Service Charge not Included in Premium | 185,611 | 179,137 | 147,855 |
| Aggregate Write-ins for Miscellaneous Income | (2,531,325) | (17,939,120) | (3,432,997) |
| Total Other Income | $286,772 | ($17,817,811) | ($6,547,971) |
| Net Income Before Dividends To Policyholders and Before Federal and Foreign Income Taxes | $20,268,819 | $69,437,115 | $40,022,964 |
| Dividends To Policyholders | 0 | 0 | 0 |
| Net Income Before Federal and Foreign Income Taxes | $20,268,819 | $69,437,115 | $40,022,964 |
| Federal and Foreign Income Taxes Incurred | 14,688,723 | 12,862,153 | 3,826,909 |
| Net Income | $5,580,096 | $56,574,962 | $36,196,055 |

PRINCETON INSURANCE COMPANY
EXHIBIT C-CAPITAL AND SURPLUS ACCOUNT FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2008

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Net Income | $5,580,096 | $56,574,962 | $36,196,055 |
| OTHER SURPLUS GAINS OR (-) LOSSES | | | |
| Change In Net Unrealized Capital Gains or (Losses) | ($11,088,020) | ($4,345,178) | $7,830,775 |
| Change in Net Unrealized Foreign Exchange Capital Gain (Loss) | 0 | (2,191) | 613 |
| Change in Net Deferred Income Tax | 8,390,260 | (7,215,420) | (5,045,692) |
| Change in Non Admitted Assets | (12,995,122) | 2,006,416 | 8,949,682 |
| Change in Provision for Reinsurance | (196,845) | 552,123 | 2,191,510 |
| Total Other Surplus Gains or (Losses) | ($15,889,727) | ($9,004,250) | $13,926,888 |
| Change in Surplus as Regards to Policyholders | ($10,309,631) | $47,570,712 | $50,122,943 |
| Surplus as Regards Policyholders, December 31 Previous Year | $269,832,606 | $222,261,894 | $172,138,951 |
| Surplus as Regards Policyholders, December 31 Current Year | $259,522,975 | $269,832,606 | $222,261,894 |

## NOTES TO FINANCIAL STATEMENTS

## NOTE 1-BONDS, STOCKS AND CASH AND SHORT-TERM INVESTMENTS

The following securities were held on deposit by states on behalf of the Company:

| State | Deposit Description | Statement Value | Market Value |
|---|---|---|---|
| Arizona | U.S. Treasury Note 5.5% due 5/15/09 | $ 1,019,530 | $ 1,002,192 |
| | Evergreen Money Market Fund | 1,259,786 | 1,296,654 |
| Delaware | Wilmington Trust | 180,416 | 180,416 |
| Georgia | Evergreen Money Market Fund | 125,000 | 125,000 |
| New Jersey | Goldman Sachs Federal Portfolio | 2,451,795 | 2,451,795 |
| North Carolina | First American Treasury Obligations MM | 311,077 | 311,077 |
| South Carolina | U.S. Treasury Note 2.0% due 2/28/10 | 993,517 | 993,124 |
| Virginia | Ridgeworth Money Market | 564,399 | 564,399 |

## NOTE 2-UNCOLLECTED PREMIUMS RECEIVABLE

The Company's does properly age its policies in accordance with SSAP 6 except in the following circumstances:

- New policies are aged off of the due date which is the effective date of the policy or 21 days after policy issuance. In accordance with SSAP 6:7a original and deposit premiums are to be aged in accordance with the effective date of the policy (due date). It is recommended the Company age all new policies off of the effective date of the policy in accordance with SSAP 6:7a .
- The Company age endorsements dependant upon the type of policy. On hospitals any endorsement is due (and also aged) 21 days after the issue date or the effective date whichever is later. On physician policies any endorsement is implemented into the remaining installments based upon the amount due up to that point and aged in accordance with the installment due dates. In accordance with SSAP 6:7b endorsements are to be aged off of the effective date of the insurance policy endorsement. It is recommended the Company age insurance policy endorsements off of the effective date of the endorsement in accordance with SSAP 6:7b.

The above mentioned exceptions did not have a material effect on the Uncollected Premiums Receivable carrying balance.

`

NOTE 3-LOSS AND LOSS ADJUSTMENT EXPENSES

The Company reported gross and net loss and loss adjustment expenses of $747,830,300 and $509,464,171 respectively were accepted for examination report purposes as determined by the NJDOBI actuarial unit. All other aspects of the actuarial analysis were also accepted for examination report purposes.

The NJDOBI utilized the services of MBA Actuaries, Inc. to complete a comprehensive review of the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2008. MBA Actuaries, Inc. together with the NJDOBI also reviewed the following in connection with the loss and loss adjustment expense analysis:

- DD&R (death, disability and retirement) unearned premium reserves
- Risk Transfer Analysis on Reinsurance Contracts

Actuarial data was tested and reconciled to ensure MBA Actuaries, Inc. and the NJDOBI could rely on the integrity of the loss data provided and the data reported in Schedule P.

## REPORT RECOMMENDATIONS

## PRIOR REPORT RECOMMENDATIONS

### Reinsurance Payable on Paid Losses and Loss Adjustment Expenses

It is recommended, as presented in the previous examination report, the Company settle its reinsurance balances payable due to the Hospital Trust for Workers' Compensation in a timely manner (no later than 60 days after the end of each calendar quarter). Per a review of the subsequent settlement of these balances the Company did not settle these balances within 60 days of each quarter end (as required in the reinsurance contract between the Hospital Trust and the Company). It is again recommended the Company settle its reinsurance payable balance with the Hospital Trust for Workers Compensation no more than 60 days after the end of each calendar quarter in accordance with the reinsurance contract settlement terms.

## CORPORATE RECORDS

It should be noted that the Company's Certificate of Incorporation lists William J. McDonough as the registered agent upon whom process may be served. Since Mr. McDonough is no longer with the Company it is recommended the Company revise its registered agent and amend Article II of its Certificate of Incorporation.

## PREMIUMS RECEIVABLE

It is recommended the Company age all new policies and endorsements off of the effective date of the policy or endorsement in accordance with SSAP 6:7a and SSAP 6:7b respectively. .

## SUBSEQUENT EVENTS

The Company provided a Form D filing with the NJDOBI on December 31, 2009 regarding the request for the Company to pay $4,800,000 to its ultimate parent, MLMIC for accrued dividends on its Surplus Note with MLMIC. The proposed interest payment represented the period from January 1, 2008 through December 31, 2009 and was approved by the NJDOBI on January 12, 2010.

The Company provided a Form D filing with the NJDOBI on November 3, 2009 for permission for Princeton and MLMIC to commute the physician tail contract covering all December 31, 1998 in-force insureds which were still in-force as of January 1, 2001. The NJDOBI approved this Form D filing on December 16, 2009. As a result of the commutation, the Company reported an increase of loss and loss adjustment expenses incurred of $8,235,761 and recorded a $9,284,961 net loss and surplus impact on the transaction.

## LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES-STATEMENT BY NJDOBI ACTUARY

### Princeton Insurance Company

I, Boris Privman, FCAS, MAAA, Managing Property and Casualty Actuary for the New Jersey Department of Banking and Insurance, reviewed MBA Actuaries Inc.'s actuarial review report of the December 31, 2008 reported loss and loss adjustment expense reserves for the Princeton Insurance Company. Based upon this review, the Company's booked gross and net loss reserves are accepted without adjustments.

Actuarial findings as stated in this examination report are the sole responsibility of the New Jersey Department of Banking and Insurance's Property and Casualty Actuarial Unit of the Office of Solvency Regulation.

/S/

Boris Privman-Managing Actuary

## CONCLUSION

The examination of the Princeton Insurance Company was conducted by the undersigned at the Company's main administrative office located at 746 Alexander Road, Princeton, New Jersey.

The courteous cooperation extended to the examination staff by the officers and employees of the Company is acknowledged.

Respectfully submitted,

/S/

Robert A. Pietras
Supervising Insurance Examiner

Princeton Insurance Company

I, Robert A. Pietras, do solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2008 to the best of my information, knowledge and belief.

Respectfully submitted,

/S/

Robert A. Pietras, Examiner-In-Charge
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Robert A. Pietras on this 2nd day of June, 2010.

/S/

Sheila M. Tkacs
Notary Public of New Jersey
My commission expires July 2010